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C O N F I D E N T I A L MANAMA 001792

SIPDIS

DEPARTMENT FOR NEA/ARPI
DEPARTMENT PASS TO USTR JASON BUNTIN

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SUBJECT: GCC COMPLAINS US-BAHRAIN FTA BREAKS THE RULES

Classified By: Charge D'Affaires Susan L. Ziadeh for reasons 1.4 (b) and (d)

1. (C) Summary: A November 23 Reuters article generated a flurry of responses in the Bahraini press including front-page coverage of comments by the Prime Minister. The article quoted an unnamed Gulf Cooperation Council (GCC) official who said GCC member states believed the U.S.-Bahrain Free Trade Agreement (FTA) violated Bahrain's regional commitments. We expect that this issue will be raised at the upcoming GCC ministerial conference to be held in Bahrain in early December, but understand that the GOB is not concerned they have upset the apple cart. We believe Bahrain is counting on continued regional interest in following Bahrain's lead and that the GOB may pursue bilateral engagement with the most likely source of these comments, Saudi Arabia. End Summary

2. (U) The November 23 Reuters article quoted an anonymous GCC official who said that member states, particularly Saudi Arabia, were "perturbed" at Bahrain's violation of regional commitments. The article cited Saudi concerns that duty-free U.S. goods would flood its market via the Bahrain causeway. The GCC official added that all member states, including Bahrain, remained committed to collective rather than bilateral negotiations, but that the FTA was a reward for Bahrain, which had succumbed to significant "political pressure" from the U.S. The Reuters article also quotes Yousif Humoud, Director of Economic Planning at the Ministry of Finance and National Economy (MOFNE), who denies Bahrain is under any pressure from its regional partners.

3. (U) In a November 29 article in the English-language Bahrain Tribune covering statements made by Prime Minister Sheikh Khalifa bin Salman al Khalifa at his majlis the day before, the Prime Minister stressed that other GCC states had entered into bilateral agreements in the past without similar objections. He also reaffirmed that a preferential trade relationship with the U.S. was well within Bahrain's rights.

4. (C) In a follow-up conversation, with EmbOff, Humoud noted that Bahrain had closely consulted with its GCC partners throughout the negotiation. He said the dissatisfaction reported in the article was not something the GOB was getting through official channels. Humoud also believes the announcement on November 15 that two other GCC members, the UAE and Oman, would enter into FTA negotiations with the U.S. was evidence that the complaints were not serious. Humoud reaffirmed that the FTA was consistent with GCC commitments on preferential treatment. He noted that GCC states can not/not give any country with which they have a bilateral agreement any preference that exceeds the preference granted to GCC member states. According to Humoud, in this case the privileges granted are the same and therefore within the bounds of Bahrain's GCC commitments.

5. (C) A November 25 article in the Arabic Al-Ayam newspaper, in which we believe the anonymous source quoted is Humoud, cites an agreement reached in the GCC Financial and Economic Affairs Committee on December 14, 2002 that stipulates that tariffs on goods imported into any GCC state, which may be exempt from duty based on a bilateral trade agreement, can be levied at the border of the GCC state into which they are re-imported. Therefore although U.S. goods are cheaper in Bahrain, their import via Bahrain will not effectively reduce any tariffs another GCC state may choose to levy on U.S. goods.

6. (C) Comment: It is our sense that the GOB, although eager to lay down a marker in the press before the agreement goes before Parliament, believes there is little substance to these claims. Embassy Manama understands that King Hamad raised this issue in his meeting with Secretary Powell, and that he sees the FTA as purely a bilateral issue with the U.S. Comments from MOFNE staff affirm that Bahrain sees no conflict between the FTA and ongoing liberalization within the GCC. End Comment.
ZIADEH